

A
A
0
0
0
6
9
5
3
4
1
8

California
ional
lity

T
D6615c
1888



UNIVERSITY
OF CALIFORNIA
LOS ANGELES

SCHOOL OF LAW
LIBRARY

Digitized by the Internet Archive
in 2008 with funding from
Microsoft Corporation

COMBINATIONS:
Their Uses and Abuses,
WITH A HISTORY OF
The Standard Oil Trust.

AN ARGUMENT RELATIVE TO BILLS PENDING BEFORE THE
NEW YORK LEGISLATURE, BASED UPON TESTIMONY
GIVEN BEFORE THE SENATE COMMITTEE
ON GENERAL LAWS.

BY

S. C. T. DODD,

Solicitor of the Standard Oil Trust.

New York :
GEORGE F. NESBITT & CO.

1888

COMBINATIONS:

Their Uses and Abuses,

WITH A HISTORY OF

The Standard Oil Trust.

AN ARGUMENT RELATIVE TO BILLS PENDING BEFORE THE
NEW YORK LEGISLATURE, BASED UPON TESTIMONY
GIVEN BEFORE THE SENATE COMMITTEE
ON GENERAL LAWS.

BY

S. C. T. DODD,

Solicitor of the Standard Oil Trust.

New York:
GEORGE F. NESBITT & CO.

1888.

STATISTICS ON THE PETROLEUM INDUSTRY.

YEAR.	CRUDE OIL; BBLs. OF FORTY-TWO GALLONS.				REFINED OIL. Average price per gal. in bbl. for export at New York.	TOTAL VALUE of Petroleum and its products, exported from the U. S. — Fiscal year ending June 30.
	PRODUCTION.	SHIPMENTS.	STOCK. Close of year.	Price at wells		
1861....	2,113,600	1,650,133	Unknown	\$0.52	61 ⁵⁴ c.	Unknown
1862....	3,056,606	3,101,571	"	1.00	36 ³⁸	"
1863....	2,611,359	3,242,951	"	3.11	44 ⁷⁶	"
1864....	2,116,182	1,842,061	"	7.85	65 ⁰¹	\$10,782,689
1865....	3,497,712	2,100,132	"	6.65	58 ⁷⁶	16,563,413
1866....	3,597,527	3,010,921	"	3.76	42 ⁴⁶	24,830,887
1867....	3,346,306	2,893,210	534,000	2.40	28 ⁴¹	24,407,612
1868....	3,715,741	3,482,510	264,805	3.57	29 ⁵²	21,810,676
1869....	4,186,475	4,255,343	340,154	5.64	32 ⁷³	31,071,256
1870....	5,308,046	5,593,168	537,751	3.86	26 ³⁵	32,668,960
1871....	5,278,072	5,667,891	568,858	4.42	24 ²⁴	36,894,810
1872....	6,505,774	5,899,942	{1,174,000 } {Estim'd }	3.96	23 ⁵⁹	34,058,390
1873....	9,849,508	9,499,775	1,625,157	1.73	17 ⁸⁷	42,050,756
1874....	11,102,114	8,821,500	3,705,639	1.18 ²⁵	12 ⁹³	41,245,815
1875....	8,948,749	8,924,938	2,751,758	1.24 ³³	13	30,078,569
1876....	9,142,940	9,583,949	1,926,735	2.51 ⁵⁰	19 ¹⁶	32,915,786
1877....	13,052,753	12,469,614	2,857,098	2.38 ⁷⁵	15 ⁴⁴	61,789,438
1878....	15,011,425	13,750,090	4,307,590	1.16	10 ⁷⁶	46,574,974
1879....	20,085,716	16,226,586	8,094,496	88 ¹²	8 ⁰⁸	40,305,249
1880....	24,788,950	15,839,020	16,606,344	94 ¹⁰	9 ⁰⁵	36,218,625
1881....	29,674,458	19,340,021	25,333,411	85 ²⁵	8 ⁰¹	40,315,609
1882....	35,789,190	22,094,209	34,335,147	78 ⁶⁷	7 ³⁹	51,232,706
1883....	24,385,966	21,967,636	35,715,565	1.05 ³¹	8 ⁰²	44,913,079
1884....	23,596,945	24,053,902	36,872,892	83 ⁷³	8 ¹⁵	47,103,248
1885....	21,600,651	24,029,424	33,836,939	88 ⁴⁸	7 ⁹³	50,257,947
1886....	25,854,822	26,332,445	33,395,885	71 ²⁵	7 ⁰⁷	50,199,844
1887....	21,818,037	26,627,191	28,310,282	66 ⁶⁶	6 ⁷²	46,824,933
					24 y'rs	\$895,115,260

Statistics on Crude Oil production, shipments and stocks are taken from the Derrick Hand Book, published 1884; later statistics on crude oil taken from the published reports of the National Transit Co.

Prices of crude and refined are averages of the published daily market prices.

Value of exports taken from the published reports of the Statistical Bureau of the Treasury Department, Washington, D. C.

I.

USES AND ABUSES OF COMBINATIONS.

When an unfortunate orator, solely for alliteration's sake, spoke of "Rum, Romanism and Rebellion" as closely related, he made a great mistake. Just as great a mistake is made when we unite the terms "Combination and Monopoly." There is, in fact, no necessary relation between them. The wonderful success of modern business is dependent upon combination. It is as much a necessity of trade and commerce as steam and machinery. By combination capital is obtained, enterprises of magnitude conducted, great results accomplished. By combination small capitalists can successfully compete with large capital. Every partnership is a combination. Every corporation is a combination. Destroy the right to combine and business on a large scale becomes at once impossible. Unity of action would be destroyed. Our railroads would be eaten with rust. Our ships would rot in their harbors. Our warehouses would decay. Mankind would become segregated as savages, each acting for himself alone and endeavoring to destroy others. Surely people do not stop to think what they mean when they utter their wild cries against combinations.

Possibly some combinations are monopolies, but monopoly does not necessarily arise from combination. A monopoly can be held by a single person as well as by a combination of many persons.

A monopoly is a grant by the Government for the sole buying, working, making or using of anything. Less than a century ago the right to labor was to a great extent a privilege which the Sovereign might rightfully sell to his subjects. In those days, it has been said, the prying eye of the Government followed the butcher to the shambles and the baker to the oven. The peasant could not grind his corn in his own mill, nor sharpen his tools on his own grindstone, nor make his oil, wine nor cider at his own press. Those natural rights and liberties which belong to every individual were taken from him and sold as exclusive

privileges to favored creatures of Government. No wonder that the term became one of odium, and that it still remains a term of reproach. Let it not be forgotten, however, that the struggle against monopoly ever has been, and ever will be, a struggle against interference in business by government.

But it is by no means true that every monopoly is an unmitigated evil. Many exist at this day which are admitted by jurists, statesmen and economists to be among our greatest blessings. Every grant of a patent right is a monopoly. Every grant of an exclusive right is a monopoly. Our railroads, gas companies and water companies, in so far as they possess exclusive privileges, are monopolies. Yet no one but a socialist or an anarchist would deprive the people of them or of the blessings they have conferred. I, however, am willing to admit that entirely too many of them exist. The greatest stride in law reform that has been made in this country in the last twenty years, consists in placing in so many of our State Constitutions the provision that no special or exclusive privileges shall be granted.

Combinations of capital and of persons, whether as partnerships, associations or corporations, without any grant of exclusive privileges, are in no sense of the word, monopolies.

Without combination, without partnerships, without joint stock associations, without corporations, the business of the world would stagnate. They are as indispensable to the manufactures and commerce of this nineteenth century as the air is to our existence. It may be a surprising statement, but it is true, that all the evils of the old monopolistic system that have survived to this day exist in consequence of the restrictions which have been placed by law upon freedom of combination.

The greatest step forward which has been made in jurisprudence in the last half century, has been in the partial removing of restrictions upon combination. And the greatest blessings that legislation can confer upon commerce and manufactures, is to leave the right of combination entirely unrestricted, while it directs careful attention to the prevention of such evils as combinations may be found to give rise to or to foster. Combination is a power for good. It may also be a power for evil. The power must not be destroyed ; it must be regulated.

I wish to go back a little to prove my assertion that freedom of combination renders monopoly impossible. Less than half a century ago the natural right of the British people to combine for trading in any manner except as partners was denied, and the issuing of a transferable stock without special legal authority was an illegal offense. For this reason the few corporations which were created by Parliament held exclusive franchises and were, therefore, monopolies. I go further and say that the right thus to combine was denied to the people in order that the few upon whom this privilege was conferred *should* hold a monopoly. We brought our laws and customs upon this subject from England, and until within a very few years in most of the States of this Union freedom of combination was denied, and the right was granted by special legislative acts to those who were political favorites or who were able to purchase special privileges. Those were the days of monopolies. Some of the Eastern States, notably Massachusetts and Rhode Island, long ago freed themselves from this error, and allowed all persons freely to combine for manufacturing, mining or mercantile purposes. The consequence was an era of prosperity in those States in marked contrast to the condition of the States whose laws forbade such combination. In no State did capital reap a better profit and labor a richer reward. The laborer was thus enabled to invest his small accumulations in the business in which he was employed. Not until 1856 did England free itself from the shackles it had placed upon its own industries and permit free combinations of persons and capital. Since that date any seven or more persons may combine in any lawful business by simply filing and registering a statement of their intent. Other States have been slow in following the lead of the New England States. But within the last ten or fifteen years it has become evident to all legislators that the best mode by which the monopolistic features of corporations or other combinations might be eradicated was to make the right of combination perfectly free to all. To-day there is scarcely a State in this Union in which any three or three thousand persons may not combine their capital, be it small or great, in any lawful business enterprise.

In New York manufacturing corporations may be thus formed

without limit of capital, and the corporations thus formed can combine at pleasure. The franchise to be a corporation, the right to combine, is no longer sold or granted as a favor. Corporations are no longer created by special but by general laws. Franchises are no longer exclusive and indestructible privileges. They are general, and may be recalled at will by the power which granted them. As a consequence, corporations are now simply business partnerships with transferable shares. The law recognizes them as such. In the late case of *Diamond Match Company vs. Roeber*, 106 N. Y., 473, the Court of Appeals of New York says:

"The laws no longer favor the granting of exclusive privileges, and, to a great extent, business corporations are practically partnerships, and may be organized by any persons who desire to unite their capital or skill in business, leaving a free field to all others who desire for the same or similar purpose to clothe themselves with a corporate character."

This change has been slowly wrought in our laws, because all legal changes are slow. It was forced by the very necessities of business. When business is small and local it is carried on in a small way by individuals. When business ceases to be localized in a village or a city, when it is no longer confined by state lines, when the producer or manufacturer has the world for his market, the business must increase with the growing demand, capital must be supplied in increased quantities, every appliance which will cheapen cost of manufacture and transportation must be utilized, combinations on a large and larger scale are absolutely essential.

Political economists recognized this necessity long before it was adopted by our law-makers. John Stuart Mill, (*Political Economy*, vol. I, p. 189,) says, "when markets are large, and a large opening for exportation, large systems of business are effective. Large establishments are substituted for small ones. This change from small to large is wholly beneficial. It may have some drawbacks, but when once the system of large establishments is established, the change from large to larger systems is an unqualified benefit." Again, p. 510, "The progress of the productive arts requiring that many sorts of industrial occupations should be carried on by large and larger capitals, the pro-

ductive power of industry must suffer by whatever impedes the formation of large capitals through the aggregation of smaller ones."

He further contends that the only hope of breaking up the separation of mankind into employer and employed and giving the employed an interest in the business, is in the extension of the combination or partnership principle, and urges that all legal obstacles to combination should be taken away.

I shall never forget the eloquence and learning with which this theory was advocated by the venerable Henry C. Carey, in the Constitutional Convention of Pennsylvania, in 1873. A synopsis of his views will be found in vol. 5, p. 477, of the debates of that body. He proved by history, experience and reason that "the more perfect the power of association, the greater the power of production and the larger the proportion of the product which falls to the laborers' share." He urged that the constitution should provide that any three or more persons might associate as a corporation for any lawful purpose. The provision was not put in the Constitution, but the Legislature of that State adopted it in effect at its next session.

Surely we are in line with the best thinkers of the age when we conclude with Prof. Sumner in his work, "What Social Classes owe to Each Other," page 55: "There is every indication that we are to see new developments of the power of aggregated capital to serve civilization, and that the new developments will be made right here in America. Joint stock companies are yet in their infancy; and incorporated capital, instead of being a thing which can be overturned, is a thing which is becoming more and more indispensable." * * * "Aggregated capital will be more and more essential to the performance of our social tasks." * * * "This tendency is in the public interest." * * * "We are to see the development of the country pushed forward at an unprecedented rate by an aggregation of capital, and a systematic application of it under the direction of competent men. This development will be for the benefit of all."

But is combination an unmixed blessing? No one pretends that it is. It is attended with, or may give rise to, greater or less evils, and it is the duty of legislators and judicial law makers

to keep a watchful eye upon, and to repress the evils. Every force is a blessing, although it may be used for evil as well as for good. We do not abolish guns because they are the instruments of murder. We do not prohibit the manufacture of dynamite because it is used by anarchists. We use steam notwithstanding its dangerous qualities. To talk of preventing combinations is childish and futile. To pass laws which will prevent them from accomplishing bad results is the most important purpose to which the legislative mind can be directed.

The usual charge against combination is that it destroys competition. "Where combination is possible competition is impossible," was once uttered by a wise man, and thousands re-utter it utterly regardless of its correct application. It was said by George Stephenson with regard to railroads which have exclusive privileges, and are, to that extent, monopolies. As competition is necessarily confined to two or three companies, combination among them certainly may destroy competition. The saying has been applied to all kinds of business, utterly forgetful of the fact that no business is carried on without combination, and the greater the business the greater necessarily the combination. Competition is not thereby destroyed. It is simply carried on on a higher plane. The man who transports on a wheelbarrow gives way, it is true, to the man who transports on a wagon. But wagoners compete. The individual with small capital gives way to aggregated capital. But the individual unites his capital with others, and the aggregations compete. The business is in consequence done better and more cheaply. The profits are possibly larger. The public, however, is benefitted by a better and cheaper product.

Competition which is beneficial is not a fierce strife between persons each to undersell the other, carried to the furthest extreme without co-operation or compromise. This would be a fit mode for savages, not for civilized men.

The beneficial effect of competition is undoubtedly to furnish the public the best material at the lowest price, but that is neither accomplished by mere blind cutting-under in prices nor is it prevented by reasonable understandings, arrangements or agreements in reference to prices. The business of the world

could not be carried on if producers or sellers of commodities could have no understanding between themselves as to prices. The competitor who begins by cutting prices below what his neighbors and himself can profitably sell at, does so only to crush them out that he may afterwards sell higher. Such competition is neither honorable nor of ultimate benefit to the public. It is of public benefit that all dealers should obtain fair profits. But the public demands, and this is what a beneficial competition accomplishes, that business be so conducted that the public shall get the best products at the least cost. This is not done by selling below cost, but by reducing the cost of producing, manufacturing and transporting in every possible way. Only the competitor who does this is a public benefactor. He is the man who buys the best tools at any cost; who advances from the old coulter and beam plough through all the improvements to the steam plough; who abandons the sickle for the cradle, and the cradle for the reaper; the man, in fact, who makes two blades of grass grow where one grew before. Such a competitor benefits the public, and the man who, unable to advance, plodding on in the ways of his forefathers, asks for legislation to protect him against his progressive neighbor whom he stigmatizes as a capitalist, is entitled to pity, but can only be helped at public expense.

It seems to be a favorite modern notion that any advance in methods of business by which the poorest competitor is injured is contrary to public policy. If this were true the public would derive no advantages from competition. The foremost in the race would be forced to wait for the hindmost to catch up. The rule in business is emphatically the survival of the fittest. Only thus can the public receive benefit from superior skill and economies in business. Competition crushes out competitors but does not destroy competition so long as all have the right to compete.

Those methods of business are correct and legal which subserve the greatest good of the greatest number. To this end unrestricted competition is absolutely necessary and so is unrestricted combination. The two are by no means irreconcilable. To illustrate, Prof. Hadley, in his work on "Railroad Transportation," asserts that competition carried to its utmost limits must always end in disaster and bankruptcy to the trades and injury

to the public. Hudson, in "Railways and the Republic," refutes this view and contends that public benefit is derived from competition alone. Both of them are right if their definitions of what competition is are accepted. Hudson says competition is not merely a strife to undersell at all hazards, but that "*the true purpose of competition is to secure patronage by doing more for the same money than any rival.*" And again, "*competition seeks to increase profits by enlarging the volume of transactions so that a small profit shall yield greater returns on a large volume of business, than a large profit on a small volume of business.*"

Could language be used more apt to describe what combination is necessary to accomplish?

Competition carried on in these methods for these purposes must stop long before its legitimate results are reached, unless combination of persons and capital to carry on the business is permitted. And when it is permitted competition is not destroyed. All are free to combine and thus competition is moved to a higher plane, the fittest survive, and the public is benefitted by the best and cheapest service. To prevent combination is to reduce competition to the primitive methods carried on between individuals engaged in local trade. It is to put trade in fetters and enclose it within narrow walls. It gives small capitalists no chance to combine and compete with large capitalists. Unrestricted competition and unrestricted combination is the true law of trade.

No matter how humble the start in trade may be, carried on competitively with the motive of doing more for the same money than any rival, and enlarging the volume to decrease the profits, it grows in magnitude, it overlaps boundaries, it embraces the State, the Nation, the World. It has all markets for its produce. It combines capital, it engages skilled persons, it adds factory to factory, it uses every device that cheapens its product, it invents new machinery and new products, it cheapens transportation, it builds ships, it becomes a grand aggregation of capital, a grand combination of business. It gives the public from year to year a better and cheaper product. At what point in this desired and beneficial result of competition will you lay your hands upon it and bid it stop? Will you praise those who build up a business

of one hundred thousand dollars, and execerate those who build up a business of millions? Think of those who used to burn machinery; think of those who tore up railroad tracks because the trade by wagons was endangered, and avoid their follies. Think of those who believe all accumulation of capital is a crime, and hesitate long before legislating to suit their views. Because business grows greater than our small notions, do not try to suppress it. The future will show us business on a larger scale than we yet dream, and the world will benefit by it.

It is further assumed, in all attacks upon combinations, that their purpose and end is to reduce supplies and increase prices, or in some similar way to injure the public.

There is no charge made against combinations which has so little foundation as this. So far from being the truth it is the very reverse of the truth. All that I have heretofore said and quoted from well known authors in Political Economy is in direct opposition to this statement. We are not dependent here on theories. Take the statistics of any important business for the past fifteen years and it will be found that the effect of large combinations has been to increase trade, to decrease prices and to benefit the public. I quote the following from Gunton, a writer on Political Economy:

"If it is true that the concentration of capital tends to diminish the cost of production and intensify competition, it follows that prices will fall or wages will rise, or both, in proportion as large enterprises supplant small ones. And this is what all industrial history shows has taken place. Take for example the cotton industry in this country. In 1831 there were 801 cotton manufacturing establishments with an average capital of \$50,702 each. The ratio of cloth produced to dollars invested was 1.48 lbs to \$1; the ratio of pounds produced to persons employed was 950.75 to 1; the ratio of capital to spindles employed was \$32.58 to 1; the ratio of spindles to persons employed was 22 to 1; the ratio of pounds produced to spindles employed was 47.74 to 1; and the ratio of consumption of cotton cloth to population was 5.90 pounds to 1, and the price of cotton cloth 17 cents per yard. In 1880, the number of establishments had fallen to 756. The average amount of capital invested in establishments had risen from

\$50,702 to \$275,503; the ratio of pounds produced to dollars invested, to 2.45 lbs. to \$1; the ratio of pounds of product to persons employed, to 3,519.40 lbs. to 1; the ratio of spindles to persons employed, to 62 to 1; the ratio of capital to spindles, to \$19.55 to 1; the ratio of pounds of product to spindles, to 57 lbs. to 1; the ratio of consumption of cotton cloth to the population was 13.91 lbs. to 1, and the price of cotton cloth was 7 cents per yard, and wages were 80 per cent. higher. It will thus be seen that, comparing 1880 with 1831, the capital invested per spindle was over one-third less, the number of spindles operated by each laborer nearly three times as large, the product per spindle one-fourth greater, the product per dollar invested twice as large, the product per laborer employed nearly four times as great, the price of cotton cloth 60 per cent. less, wages 80 per cent. higher, and the consumption of cotton cloth per capita of the population over 100 per cent. greater. These are the results of the process of consolidation into large capitals extending over half a century. What is true of this industry is equally true of all industries, in proportion as the concentration of capital has increased."

What is here said of the cotton business is true of all branches of business. The last fifteen years has been an era of combination in business, it has also been an era of lower prices. Whatever else may be said of combinations of railroads, combinations of telegraph lines, combinations of manufacturing companies, statistics will show that increased trade and lower prices follow as an almost inevitable result. If there are exceptions they serve but to prove the rule. I shall show hereafter that so far from the Standard combination being an exception, it can exhibit an increased trade and reduction in prices, as the direct result of combination, to an unprecedented extent.

When I speak of unrestricted combinations I do not mean that combinations should be allowed under all circumstances and for all purposes. While combination is not, *per se*, evil, its purpose may be. The law is possibly our best guide on this subject. It has progressed as experience and the necessities of business required it to progress, from the idea that all combinations were wrong to the idea that all persons should be left free to combine for all legiti-

mate purposes. To this day, however, the law is properly very jealous of certain classes of combinations, such as

- 1st. Where the parties combining exercise a public employment, or possess exclusive privileges, and are to that extent monopolies.
- 2nd. Where the purpose and effect of the combination is to "corner" any article necessary to the public.
- 3rd. Where the purpose and effect of the combination is to limit production, and thereby to unduly enhance prices.

These things are illegal, and properly so. The mistakes of writers on trusts and combinations consists in assuming that all combinations are for such purposes, whereas the purpose and effect of most combinations is just the reverse of this, namely, to lessen the cost of production, increase the amount of consumption, and distance competitors by selling at less prices. The differences between the assumed and the real purpose and effect is as great as between using dynamite in constructing public improvements and using it in destroying property.

Time would not permit me to review the cases laying down the law on the subject of combinations for illegal purposes. Those, and they are the majority, relating to railroads and public carriers, are not pertinent to the case. All the others, including the well known Coal cases and the Salt cases, were arrangements with the direct and avowed purpose of destroying all competition, diminishing supplies and raising prices.

These things are just as unlawful without combination as with it. In other words, the evil is not in combination but in its purposes and results.

And let it be noted here that where the law speaks of agreements destroying competition it does not refer to the fact that competition between those who associate is thereby destroyed, for if this were illegal two persons could not enter into partnership. It condemns any arrangement the purpose or *necessary* tendency of which is to destroy *all* competition and thus to prejudice the public.

So far from condemning all combinations which may effect competition, the law favors combinations the object and tendency of which is to lessen the cost of production and prices to the public.

Judge Gibson is correctly quoted in Mr. Crain's printed brief as saying, in *Com. vs. Carlisle*: "A combination is criminal whenever the act to be done has a *necessary* tendency to prejudice the public or to oppress individuals by unjustly subjecting them to the power of the confederates, and giving effect to the purpose of the latter *whether of extortion or of mischief*." You will notice that it is not the combination, but the purpose of extortion and mischief, and the *necessary* tendency to prejudice the public, that is criminal. Judge Gibson, in the same case, also says:

"The combination of capital for purposes of commerce, or to carry on any other branch of industry, although it may in its consequences indirectly operate on third persons * * * is a common means in the ordinary course of human affairs *which stimulates to competition*, and enables men to engage in undertakings too weighty for an individual." I wish you to mark, that, in the opinion of the greatest Judge who ever adorned the Bench of Pennsylvania such combinations *stimulate to competition*.

The same view is expressed by another learned Court in this way: "Associations are so common an element, not only to commerce, but to all affairs of life, that it would be rather perilous on the part of the Court to assert that they impair competition, destroy emulation, and diminish exertion. There is scarcely an occupation in life, scarcely a branch of trade, from the very largest to the smallest, that does not feel the exciting and invigorating influence of this wonderful instrumentality. It made and conducts our government, constructs our railroads, our steam vessels, our magnificent ships, our temples of worship, structures for public and private use, our manufactories, creates our institutions for learning, builds up our cities and towns. Its very office is to do what individual exertion may not accomplish, and in a degree distinguishes civilized from savage life."

I am well aware that many old authorities can be found to the effect that any combination is illegal, and doctrines to the same effect may occasionally be found in the opinions of modern

Judges, who, incapable of learning anything new, are not aware that the world has moved in the last century. As remarked before, less than a century ago the iron hand of the Government was upon all business. Not only combination in business but a great portion of that which to-day constitutes business, was prohibited, unless specially allowed by the Government. It was a crime for workingmen to combine to raise their wages. It was a crime to buy in one market to sell at a greater price in another. It was a crime to purchase produce on its way to market. It was a crime to export certain commodities. Some of the bills presented here, and some of the arguments in their advocacy would have you forget all that has been learned for a century and adopt the laws of an age when business in its modern sense was unknown; when the iron hand of Government not only controlled but paralyzed trade; when workingmen were slaves prohibited from acting together for their own benefit; when the leaders of political combinations which undertook to influence legislation, whether wisely or unwisely, were beheaded as traitors.

Before doing so, contemplate what such a thinker as Buckle, Vol. I., p. 277, says of those old laws: "Every European Government which has legislated respecting trade has acted as if its main object were to suppress the trade and ruin the traders. Instead of leaving the national industry to take its own course it has been troubled by an interminable series of regulations, all intended for its good, and all inflicting serious harm. To such a height has this been carried, that the commercial reforms which have distinguished England during the last twenty years, have solely consisted in undoing this mischievous and intrusive legislation. It is no exaggeration to say, that the history of the commercial legislation of Europe presents every possible contrivance for hampering the energies of commerce. In every quarter and at every moment, the hand of Government was felt. Bounties to raise up a losing trade, and taxes to pull down a remunerative one, this branch of industry forbidden, and that branch of industry encouraged. Laws to regulate wages; laws to regulate prices; laws to regulate profits, interference with markets, interference with manufactories, interference with machinery, interference even with shops."

Gentlemen, legislation has made some progress backwards the last few years. Is it not time to call a halt?

No Legislature can interfere with freedom of combination for legitimate purposes without striking trade and commerce prostrate at its feet. If you enact, as certain bills before you would have you enact, that no two men can agree on the price at which they will sell any article, or that two individuals cannot agree to cease competing in sales, or that no combination which affects prices shall be legal, you destroy not only all partnerships, all corporations, all aggregations of capital, all unity of effort in business, all compromises by which the disasters of over-competition are frequently averted, but you simply render business impossible. Your Act should be entitled "an Act to effectually prevent Trade and Commerce."

A word further as to associations of great magnitude. I have said the magnitude must correspond with the market. A small association may temporarily diminish competition in a small trade. The agreement of two grocers in a country village may fix prices for that village. Will competition be thereby destroyed? By no means, for the field is open to any comer, and if prices are fixed too high buyers will seek a new market, or a third grocer will come in. In a city the rule is the same. The business must be enlarged to meet the enlarged market. Great combinations may take place. They do not, however, affect the market as much as the agreement of the two grocers in a country village affects their market. The field is open to all comers, large or small. Arbitrary prices will simply invite new capital.

When the world is the market the business must be on equal magnitude. Associated capital on a corresponding scale is required. Still the field is open to all comers. New and again new manufactories may be drawn into the association. No monopoly is created, for new ones spring up to take their places. Prices must be kept at the lowest possible point to keep new capital from the field. Combinations controlling millions of dollars, with the world for a market, do not have half the influence in controlling that market that the formation of a partnership by two grocers has on the market of a country town.

I repeat again, because it is a principle that seems to be lost

sight of, that the right of association must be free, that the magnitude of associations must correspond with the magnitude of the business to be done, that business cannot be localized, that it cannot be confined by State lines, that when the problem is to open and to keep open the markets of the world, it is sheer madness to attempt to restrict the business as that of a local manufactory may be restricted. All the wisdom learned from experience and from political economists for the last half century must be thrown to the winds at the mad bidding of socialistic enemies of capital before such a result can be accomplished. You may accomplish it but you will accomplish the destruction of trade and commerce at the same time.

If combinations for a legitimate purpose are necessary and beneficial, the question as to how they are formed is of little consequence. The important question is not how are they formed, but for what purpose and for what effect? If a corporation is formed for refining in New York City and the parties in interest desire to carry on refining also in Philadelphia, why may they not form a corporation in Pennsylvania? If, afterwards, they want to establish branches for trading in their products in Chicago, St. Louis, Louisville and elsewhere, why may they not establish trading corporations under the laws of the several States? The business might all be done by one New York or one Pennsylvania corporation, but it is fairer to the several States that corporations doing business in them should as far as possible be organized under and subject to their own laws. When corporations are thus organized in different States, the stocks held by the same stockholders, and conducted in the same interest, placing these stocks in the hands of trustees, and receiving therefor a trustee's certificate representing the combined interest, is a matter of simple convenience. It neither adds to nor takes away from the fact of combination caused by common ownership of the stock and the common interest, nor can it harm the public in any way unless the purpose and effect of the combination is harmful to the public. It was in this way that the Standard Oil Trust was created. It was the parent of the Trust system. Whether any trust existed before it or any trust since created is at all similar to it, I do not know. Every combination, by what-

ever name called, must be judged by its own history, and stand or fall on its own merits or demerits.

It is asserted with remarkable iteration, that "Trusts" are in some mysterious manner exempt from legal jurisdiction. I cannot understand upon what conception such statements are based. No subject of which the law takes cognizance is more particularly subject to judicial supervision and control than trusts. Courts may declare them void or enforce them, may appoint and remove trustees, may require an accounting at any time. Trustees are personally responsible for the slightest deviation from the trusts imposed in them. Trusts may be springing up like mushrooms in the night, but if they are for any illegitimate purpose they will decay as rapidly. They are illy calculated for any hazardous, speculative or doubtful business. Responsible trustees could not be found to incur the personal risks. They are well calculated for a safe and legitimate business of great magnitude carried on through the agencies of corporations organized in separate States. If organized for any other purpose they will soon come to nought.

The sum of all that I have said is briefly this: The use and legitimate effect of industrial combinations is *to furnish the public a larger supply of commodities at a smaller price.* The illegal purpose and effect of such combinations is *to furnish the public a smaller supply with intent to unduly increase the price.*

Wise legislation will prevent the abuse without interfering with the useful results.

I now propose to review the history of the Standard combination, both prior and subsequent to the formation of the Trust, and I expect to demonstrate that the necessities of the business demanded association on a large scale; that the business has always been competitive both at home and abroad; that the combination has constantly cheapened manufacture and improved the manufactured products; that it has increased the demand, and diminished prices to an extent unparalleled in any other business; that, in short, it has furnished oil at the lowest possible prices at home, and built up an American trade of fifty millions a year abroad, which it maintains against the fiercest competition.

II.

HISTORY OF THE STANDARD OIL COMBINATION.

Petroleum was discovered in 1859. At first it was simply distilled, and a product obtained unsatisfactory and dangerous. Improvements were made, new products discovered, hundreds of patents taken out and hundreds of refineries erected in the oil region. They were universally small and cheap. In the principal cities more extensive refineries with more expensive and perfect machinery were established. All the refineries were competitive, and although for a time the business was prosperous, for many years the history of the refining business was mainly one of disaster, failure and bankruptcy. Up to 1872 oil had not been sold as low as twenty-five cents per gallon; it was sold at times as high as fifty cents per gallon, and yet refiners on the whole made little money.

Now a reasonable profit is made at seven cents per gallon and a far better product manufactured. This result has been largely accomplished by the Standard Oil Combination.

In 1870 the Standard Oil Company of Ohio was organized with a capital of \$1,000,000. There was then, and is now, no special significance in this particular company. A Standard Oil Company had been organized at Pittsburgh prior to this time by other persons and was doing a large business. The business had already sought the centres of trade. The Cleveland Standard Refinery, the Pittsburgh Refinery, the Atlantic Refining Company of Philadelphia, Chas. Pratt & Co., at New York, were important companies and refiners. Because of the disastrous history and condition of the business and its hazardous nature they entered into an alliance. It was no new thing. Refiners' combinations of greater or less magnitude had been entered into at various times during the prior history of the business. None

of them had proved very lasting. The cost of transportation and packages had been important factors in ruining the business. At first oil was barreled at the wells and hauled in wagons to the railroad. Afterwards the system of transporting to the railroad by pipes laid under ground was adopted. But even then up to 1872 it cost fifty cents to transport a barrel of oil by pipe line ten miles. Railroad rates were excessive and lacked uniformity. Refiners who could combine and throw a large volume of business to any particular road could get favorable railroad rates. Those who could not do this got such rates as they could. The rebate and drawback system was then universal. It was not confined to oil.

This fact, possibly, had much to do with the combination of refiners afterwards known as the Standard. But it was by no means all. They as business men saw this new, and up to this time disastrous business required co-operation for a number of reasons.

It is not probable that they foresaw all the results of their combination. We have the right, however, to judge of their purposes from the ends they have accomplished. Judged in this way we are safe in saying that their purposes were :

1. To cheapen transportation both local and to the seaboard by perfecting and extending the pipe-line system; by constructing and supplying cars by which oil might be shipped in bulk at less cost than in packages, and the cost of packages be also saved; by building tanks in which oil in bulk could be stored; by purchasing and perfecting terminal facilities for receiving, handling and re-shipping oils; by purchasing or building steam-tugs and lighters for harbor and river service; by building wharves, docks and warehouses for foreign shipments.

2. To manufacture a better quality of illuminating oil at less expense by uniting the knowledge, experience and skill of all parties, as well as their various secret processes and patents, and by building up manufactories on a more extensive and perfect scale with improved machinery and appliances.

3. To unite with the business of refining the business necessarily collateral thereto, to wit, the manufacture of barrels, of tin

cans, of boxes for enclosing cans, of paint, of glue and of sulphuric acid, and to cheapen these necessary materials by manufacturing them on a large scale with the best machinery.

4. To obtain and utilize the best scientific skill in investigating and experimenting upon the obtaining of new and useful products from petroleum, and to cheapen illuminating oils by obtaining profits from these by-products.

5. To employ agents and send them through the world to open up markets, learn the cheapest and best methods of supplying them, and to convince the people of all lands of the cheapness and safety of petroleum oils.

6. By all the means enumerated to increase the supply of oil products and lessen their price to the consumer.

I say that these were the objects of the combination, because this is what for fifteen years the combination has been doing. To accomplish these purposes combination was absolutely necessary. No one man, no one corporation, could accomplish it. It meant millions of money. How much money it required the parties then inadequately comprehended. The result proved that for the pipe line and storage system alone thirty millions of dollars were necessary.

Such were the purposes of the combination. What was its nature?

Stockholders of the various corporations referred to became mutually interested in the stocks of all. It was a union not of corporations, but of stockholders. The companies continued to conduct their business as before. They ceased to be competitive in the sense of striving to undersell each other. They continued to be competitive, and are to this day competitive, in the sense that each company strives to show at the end of the year the best results in making the best products at the lowest cost.

From time to time new persons and capital were taken into this association. Whenever and wherever a man showed himself skillful and useful in any branch of the business he was sought after. As the business increased new corporations were formed in various States, some as trading companies, others as manufac-

turing companies. In some cases the stocks of these companies were placed in the hands of trustees instead of being distributed to the owners. Out of this grew what is known as the Standard Oil Trust. It was simply an agreement placing all these stocks in the hands of trustees, declaring the trust on which they were held, and providing for the issuing of a certificate showing the amount of interest of each owner in the stocks so held in trust. This agreement did not in any essential manner change the nature of the association previously existing. Its essential character was and is simply a common ownership of stocks in various corporations. If it is a crime *per se*, this and only this constitutes the crime, namely—that persons unite their capital and purchase stocks of various corporations, or form various corporations, and hold their stocks for the purpose of conducting an extensive business by means of different corporations. The State of New York permits manufacturing corporations to be formed with unlimited capital. It permits corporations so formed to combine. A corporation formed there could carry on business throughout the nation, or a commercial business throughout the world. This would be commendable. But suppose persons thus desiring to do business prefer, instead of organizing one corporation in New York, to organize a corporation in each State in which they do a local business, so that the business transacted in each State shall be conducted by a home corporation subject in all respects to the law of the State where located. Such a plan has seemed to me commendable, not blameable, and, in consequence, we have organized a Standard Oil Company in New York, in New Jersey, in Kentucky, in Iowa, in Minnesota; one exists in Ohio, one in Pennsylvania. The business of each State is, as far as possible, transacted by a corporation organized under the laws of that State and subject to its jurisdiction. It pays its taxes there, and is usually officered by citizens and residents. If this Government was a unit instead of a federation of States there would probably be no Standard Oil Trust.

The voting power was not changed by the Trust Agreement. Those named as Trustees then held the voting power by virtue of their absolute ownership of a majority of the stock placed in trust, and if the trust was to-day dissolved, the power of the

Trustees would not be altered. They as individuals, would still be the holders of a majority of all the stocks held in trust, and would as individuals possess the voting power they now exercise as trustees.

I have stated the purposes of this combination. Let us take up the facts and figures showing what has actually been accomplished.

1. THE STANDARD OIL COMBINATION HAS NOT WITHHELD SUPPLIES AND INCREASED PRICES, BUT THE CONTRARY.

The oil business began in 1859. This co-operation of refiners began in 1872, but reached no considerable proportions until 1874.

In 1870 the production of oil was about five million barrels, and consumption about equal. Price of crude oil at well, \$3.86 per bbl. Price of export oil in New York, barrel included, \$11 per bbl.

In 1873, the first year after co-operation began, the production of oil reached nearly ten million barrels, the consumption was nine and one-half millions, the price of crude oil fell to an average of \$1.73 per bbl., and the price of export oil to \$7.50 per bbl. The value of exports, notwithstanding decrease in price, increased from 32½ millions to 42 millions of dollars.

In 1876 there was a rise in the price of crude oil to an average of \$2.50 per bbl., based upon the fact that production was not materially increasing, and the oil regions, then confined to Venango, Clarion and Butler Counties, Pennsylvania, were supposed to be fully developed and liable to exhaustion. Refined oil advanced in consequence to an average of \$8.00 per bbl. for that year. From that date the increase in supply and decrease in price has been constant. At the close of 1881, the date of formation of the Trust, the consumption of oil had increased to over nineteen million barrels per year; the price of export oil at New York had decreased to about \$3.36 per bbl., which, estimating package at \$1.50 per bbl., leaves \$1.86 as the price of the oil per barrel, and yet the value of the exports amounted to over forty million dollars, showing an enormous increase in the trade.

Notwithstanding the wonderful decrease in price and increase in amounts supplied to the market up to this time, let us see

what followed the creation of the Trust. The decrease in price and increase in supplies did not cease. At the close of 1887, six years after the creation of the Trust, we find the supply to the markets increased to over 26½ millions of barrels, of 42 gallons each, per year: the price of the crude material reduced to an average of 66.66 cents per barrel, and the price of 110° Standard White to \$2.81 per bbl., of 50 gallons, including the barrel. And notwithstanding the almost nominal price of oil, the value of exported products reached for that year the enormous sum of \$46,824,933.

These figures speak for the Standard Oil Company as nothing else can do.

It is said the decrease in the price of refined products is entirely in consequence of the decline in the price of crude oil. If so, the Standard can claim no credit for it, because the result of all its operations is to keep up the price of the crude product. But look at the figures. In 1872 crude oil was 9.43 cents per gallon and refined 23.59 cents per gallon. In 1887 crude oil was 1.59 cents per gallon or 7.84 cents less than in 1872. Had the refined product been reduced only to the same extent it would have been 15.75 cents per gallon in 1887. But it was only 6.72 cents per gallon. The difference, 9.03 cents per gallon, represents the reduction in the refined products after eliminating the effect of the decline in crude. The prices of all other products of petroleum were reduced in the same proportion and as over a thousand million gallons of crude were consumed in 1887, *this reduction in the cost of refined products, after allowance for the reduction in crude, benefitted the public to the extent of about ONE HUNDRED MILLIONS OF DOLLARS* for that single year. For this the Standard claims its due proportion of credit.

2. CHEAPENING TRANSPORTATION.—In 1872 the pipe line system was in its infancy. A number of local lines existed. Their service was inefficient and expensive. There was no uniform rate. The united refiners undertook to unite and systematize this business. They purchased and consolidated the various little companies into what was long known as the United Pipe Line System. The first effect of this combination was a reduction of price of all local transportation to an uniform rate of at first 30 and soon

after 20 cents per barrel. The pipes were placed at every well. A storage system was also adopted. Huge iron tanks were builded in which oil could be stored awaiting a market. The cost of storage has been reduced until it is now cheaper than that of any other commodity. Oil was taken from any well, stored in these tanks, and a certificate given the producer showing the amount. These certificates ultimately became the medium of trade in oil. They were bought and sold, and when presented at any pipe line terminus at any railroad the oil was delivered on board cars. The amount of capital back of these certificates, and the uniformly careful manner in which the business was conducted, eventually created such public confidence in them that they have been dealt in by thousands of persons in this and other countries who never saw a barrel of crude oil. Exchanges for their sale exist in several of the principal cities. They are taken by banks as collateral. They are as good as money. They are now dealt in in the New York Stock Exchange. Oil is delivered on them in New York as well as in the oil region.

Although the business was built up and owned by those who built up and owned the Standard Oil Company, the business is done for the public. Its benefit to the oil trade has been incalculable. Instead of, as is sometimes charged, the Standard being the sole buyer, the buyers are numbered by thousands. The producer not only gets the highest possible price which competition to purchase will bring, he gets also cash in hand. He never sees his oil from the moment it leaves his well. When he wants his well tank relieved, he telephones a pipe line gauger, sees his oil pumped, receives a ticket showing the amount, takes it to a pipe line office and gets a certificate which he can hold, borrow on or sell in any exchange, as he sees fit. No one can estimate this advantage to the business. Without combination, aggregated capital and public confidence in the security, it could not have been accomplished. Should you dissolve the combination and disperse the capital which makes these certificates secure, the system could no longer be maintained.

The figures will show that in one year the production of oil exceeded thirty-one millions of barrels, or nine million barrels in excess of consumption. Consider for a moment what this means.

Every day of that year iron tankage had to be built to accommodate twenty-five thousand barrels of surplus oil. This meant an army of iron workers and tank builders, and a cost per day of \$7,500.

This the Standard Oil Companies accomplished. How, without aggregated capital, could it have been done? It is idle to speak of the work as Herculean. In these days, by combination of money and effort, the labor of a thousand Hercules is easily accomplished.

So much for local transportation and storage. About 1879 or '80 it was discovered that railways were inadequate to the task of getting oil to the seaboard as rapidly as needed. Combined capital and energy were equal to the emergency. No need to detail how it was done. To-day there reaches from the oil regions of Pennsylvania and New York to the principal cities iron pipes conducting oil as it comes from the wells. Two such lines reach to New York harbor with a capacity of 25,000 barrels per day. There is one such line to each of the cities of Philadelphia, Baltimore, Buffalo, Cleveland and Pittsburgh, built by the Standard Oil combination at a cost of millions and doing business for the public.

Now a word as to railway transportation. The one burden of the charges against the Standard is that it received special rates from railroads which enabled it to distance its competitors. There is more grounds for this than any other charge made against it. As before remarked, probably the necessity of in some way improving and cheapening transportation was a strong inducement to the original combination. There were competing roads and it was found that those who could ship in large and uniform quantities over any particular road could command special rates. It was then the universal mode of business. The man who could not avail himself of it might as well retire from business. The Standard availed itself of this mode of business. It could furnish the railroads with, not car loads but train loads. Besides it built loading stations and loaded the trains by its own labor. It built terminal stations where it received and unloaded trains itself. It became its own insurer and released the railroads from any obligations for damages. It found that the

country had not white-oak forests sufficient to furnish material for making barrels to hold all the oil shipped and it experimented on car after car for carrying oil in bulk. When the proper car was found it constructed thousands of them and placed them on the railroads. For these services it demanded and obtained low and lower rates of freight. The freight was lowered to the public at the same time. In 1872, it cost \$1.50 to get a barrel of oil to New York. To-day it costs fifty cents.

It is true the Standard often got a special rate. The railroads refused to carry oil for the same prices for those who shipped in packages in car-load or less than car-load lots, who did not do their own loading or unloading, or furnish their own cars or terminal facilities. Whether this was an absurd, unjust and criminal position for the railroads to take, let the Supreme Court of the United States decide. The question in various phases is before it. The Standard has always contended that its immense outlay in cheapening the actual cost to the railroads of oil transportation entitled it to correspondingly less rates of freight.

The Inter-State Commerce Commission has lately decided that every pound of oil is entitled, whether carried in barrels or in bulk, to reach the market at equal rates. This is founded on the modern idea that enterprise, energy and capital are not entitled to advantage in competition. The race is not to the swift, nor the battle to the strong. Controlled by such ideas, competition is of no benefit to the public. All are placed upon a dead level. The unfittest as well as the fittest survive. Whether this is or is not the correct principle the result is that to-day all shippers, by all modes, are charged the same freight per pound.

One word more before leaving this subject. Assertions of the most absurd character have been made, published in magazines and books, and reiterated on the floor of Congress by those who ought to know whether they speak the truth or not, in relation to the amount of these special rates or drawbacks. The favorite story is that A. J. Cassatt testified before a New York Legislative Investigating Committee that the railways had paid the Standard \$10,000,000 in rebates in eighteen months.

Of course, A. J. Cassatt never testified to any such thing at any time or place, and the man who invented the story certainly

smiled at its absurdity. It has become a part of history, however, and may be found in learned volumes and in the Congressional Record. It will be told for truth after we are dead. It is a fair sample of stories about the Standard.

3. **CHEAPENING COST OF MANUFACTURE.**—The Association of Refiners united the best knowledge and skill in the business. If one had a patent it was open to all. If one had a secret the others shared it. Methods were compared. New plans were tested. Results were and are carefully collated. If one establishment succeeds in saving the fraction of a cent per barrel in making oil the reason is known and the method of saving adopted. If good results are obtained in one manufactory and bad results in another, the reason is at once discovered and faults corrected. Scientific men are constantly employed who have made useful discoveries in new products and new methods of manufacture. The consequence of all this is that since 1872 the actual cost of manufacture of refined oil has been reduced 66 per cent.

The public have the advantage of this in the reduced price at which the oil is sold, which benefit amounts to millions annually.

4. **THE SAME CHEAPENING OF MANUFACTURE** has taken place in the manufacture of barrels, tin cans, boxes for enclosing cans, paint, glue and acid.

In 1872 barrels cost the trade \$2.35 each. They are now manufactured at our own manufactories at a cost of \$1.25 each. About 3,500,000 barrels are used per annum. This single item amounts to \$4,000,000 per year.

In 1874 cans cost thirty cents each. They are now made by our manufactories for less than fifteen cents.

Thirty-six million cans are used each year, and this one item of saving amounts to \$5,400,000 each year.

In 1874 wooden cases cost twenty cents each. They are now manufactured by our own manufactories at a cost of about thirteen cents each. The saving in this item alone amounts to \$1,250,000 each year.

The same cheapening process has taken place in the manufacture of tanks, stills, pumps, and everything used in the business.

All these millions are saved by the economies which combination of persons, capital, experience and skill render possible, without reducing the wages of a single laboring man.

5. THE BUSINESS IN BY-PRODUCTS OF PETROLEUM.—After illuminating oil is manufactured a large residuum is left. Up to 1875 this was almost exclusively used as fuel at the refineries. The Standard devoted special attention to this residuum. Experts visited the great shale works in Scotland and studied their methods. The consequence was that extensive works were erected for the manufacture of products from this residuum, principally lubricating oils and paraffine wax. These works are necessarily expensive, and manufacture the residuum of a large number of refineries. Small refineries cannot advantageously engage in this branch of business and cannot afford to manufacture illuminating oils unless they can dispose of their residuum. This is one of the reasons so many small refineries prove failures. The cost of manufacture of lubricating oils and wax has been reduced by improved methods and constant attention, and the price to the consumer has been constantly reduced, averaging to-day fifty per cent. less than in 1878.

The use of illuminating oils was introduced to the public with comparative ease, because it met an urgent need. Lubricating oils, on the contrary, met with slow recognition, having to supplant sperm, lard and fish oils. In Europe, in addition, the products of shale had to be competed with. The work was pushed with vigor, with capital and with success. An enormous home and foreign trade has been established in these by-products.

Numerous other useful products are obtained from petroleum, and no expense has been spared to find a use and a market for them. All this results in ability to sell illuminating oil at a price a little above the cost of the crude product, and thus to make it "the poor man's light."

6. MARKETS FOR PRODUCTS.—To make the consumption as great as it is, the first essentials were good quality and cheapness. But that is not enough. Twenty-five years ago the world was just beginning to hear of Petroleum. When this Standard Combination was formed twelve years had elapsed and the world was using less than six millions of barrels per annum. Of that three

and one-half million barrels were exported. In two years afterwards the exports were nearly six million barrels. The reason for it was that no single refinery could afford to keep agents in Europe and Asia to demonstrate the advantages of this product, open means for its convenient and safe transshipment and force it upon the trade. The refiners when combined could do it, did do it and continue to do it. The consequence is that petroleum is to-day the light of the world. It is carried wherever a wheel can roll or a camel's hoof be planted. The caravans on the desert of Sahara go laden with Pratt's Astral, and elephants in India carry cases of Standard White. Ships are constantly loading at our wharves for Japan, Java and the most distant isles of the sea. Our country's revenues are swollen fifty millions of dollars per year by this trade. Think you it was built up or maintained without cause? It never could have happened without combinations of persons and capital, and without the support of combination and capital the whole trade would be swept to destruction as the vanishing of a cloud on a summer's day. To illustrate, let me give the history of a small subject.

Complaints occasionally come to us from all parts of the world that oil is not proving satisfactory. An agent is sent to investigate. Sometimes the cause of the trouble is found to be Russian oil in American packages, or oil under false trade-marks. Consuls, Ministers and Governments are besieged until a remedy is obtained. One great cause of complaint arose from bad wicks. Some years ago a manufactory was established by the Standard interests for manufacturing the best wick known. Its capital is large, but it sinks about all its capital every year. The wicks are sold at a price so low as to compel their use. Things like these cost thousands of dollars per annum, but they save our market. This is done at our expense, but our competitors reap their share of the benefit. Without combination it would not be done at all.

On the shores of the Caspian Sea for centuries have burned the sacred fires of Baku. These fires are fed by petroleum which there is ready to burst forth like a volcano at the piercing of a few feet of rock. Long before petroleum was discovered in Pennsylvania it was an article of commerce in Russia. No great

activity was shown in this field until about the year 1872 when the oil lands passed into private hands. In 1879, 195 refineries were in existence, capable of turning out 1,400,000 barrels annually.

About this time they discovered there what had been demonstrated here long before, that combination and capital were necessary to make a success of the business. Nobel Brothers put into it a capital of \$2,500,000. All the American experience was utilized. Pipe lines were built, 2,500 tank-cars placed upon the railroad, huge tanks, warehouses and docks erected, ships constructed carrying oil in bulk, and case and can manufactories were established. In fact, an imitation of the Standard Oil enterprise manifested itself on the shores of the Caspian. No doubt the hundreds of small refineries, which for years had accomplished as little as the wind-mill at Nantucket, were crushed out. but a business was built up and Russian oil was placed upon the market, not only in Russia and the Orient, but also in Austria, Germany and even England. Since that day Russian competition has to be fought in every portion of the Eastern Hemisphere. Russian oil is sold in American packages under American trade-marks. The crude product is cheaper than water, varying from two to six cents per barrel. A better illuminating product is constantly being obtained. It is rich in lubricating oils of a good quality. Its refuse is used for fuel on the ships which transport it. The Rothschilds have taken hold of the business and new pipe lines are projected. Unlimited capital and energy will be put into the business. It must be met with unlimited capital and energy or our foreign trade of fifty millions annually will be sadly impaired.

Had this matter been left to individuals to be met without combination or united effort, Russia to-day would control all the markets of the East. Pass a law that persons in the same business cannot agree upon prices, or co-operate in their business, and in five years instead of an annual income of fifty millions from oil exports you will not have ten millions. Without the pipe line system, the cheap transportation, and the improvements in manufacture which I have narrated, the markets in Europe and Asia could not be held against Russia for a single year.

Such is briefly the history of the rise, progress and results of the business of the United Refiners, popularly known for many years as the Standard Oil Company, now known as the Standard Oil Trust. I may state farther in relation to the companies represented in this union, that they have been guilty of no stock jobbing and no watering of stock; that no creditor has suffered; that their business obligations are strictly fulfilled; that labor is amply rewarded, and that it has an unparalleled record of satisfactory relations with its army of 25,000 employees.

What, then, are the causes which has led to the popular opinion that this Standard is a gigantic monopoly which must be crushed? The reasons are various, and I can only briefly review the principal ones.

1. The principal reason at present is that there is "in the air" a socialistic prejudice against capital. It is useless to seek for its causes, or to attempt to analyze it. It is strong and dangerous. Legislators can do much to counteract it by attempting to remedy real evils, and much to foster it by permitting demagogic feeling to usurp the place of reason.

2. The Standard, on account of its aggregation of large capital, stands as the type, in the public estimation, of a modern monopoly crushing out all competition.

It is not and never has been a monopoly in any sense of the word. The corporations are, with a single exception, ordinary manufacturing companies, organized under general laws of the various States. They do not possess a single exclusive franchise or special privilege. All the privileges they possess are open to all persons and may be obtained by simply signing and filing a paper stating the desire to be incorporated. The "Trust" is a trust and nothing more. The companies are governed by their respective officers and are subject to the laws of the several States where organized. The Trustees are the stockholders. The companies necessarily work in the same interest because the interest of the stockholders is identical.

Neither has the Standard destroyed competition. In 1872, the date of the inception of this union of refiners, the total amount of crude oil refined was about $5\frac{1}{2}$ millions of barrels annually. Of this business the refiners who ultimately became associated

did by far the greater proportion. Competition at home and abroad has never ceased for a single instant and has always been strong enough to give the public all the advantages which competition confers. To-day the amount of oil refined is about twenty-four millions of barrels annually, and of this, refineries in competition with the Standard, do about twenty-five per cent., or six millions of barrels, which is more than the total amount refined when this combination began, and probably three times more than the competitive refiners manufactured at that date. How can that business be said to be crushed out which has tripled during the crushing out process? There are to-day over one hundred refineries in active competition. If any undue price was placed upon oil products the number would double almost in a night. Nothing but low prices keeps out competitive capital.

All competitive refineries have benefitted by the Standard's efforts at improvement and by its money expended in establishing markets. Many refineries have failed. Competition has simply moved to a higher plane. Those who could not or would not follow the business in its new lines could not succeed. Thousands of those who enter business are doomed to failure no matter what the circumstances. No refiner has failed without damning the Standard.

3. Another cause of the prevalent popular belief may be found in the absurd tales told in regard to the Standard's increase of capital. As a sample story, I extract this language from a late speech before the Congressional House Committee on Manufactures: "Do you know, my friends, the wealth of this monopoly to-day? One hundred and fifty millions, and still a-growing! Do you know its profits last year? Twenty-five millions of dollars. I have the figures here, and I hope you will examine them. Do you know with what amount of capital it started? Less than a million dollars. How did it acquire the other \$149,000,000?"

Talk like this does very well for oratory, but it puts truth to the blush. In the first place the orator has watered the capital of the associated companies sixty millions of dollars, which is moderate for an orator who has a point to make, but is contrary

to public policy. I only refer to this matter to answer the question where did the other millions come from? It came from the united capital of the various companies whose stocks are held in trust. The Standard of Ohio represents now \$3,500,000, its capital having been increased to that amount. In the original union all the companies had large paid-up capital. The individuals thus uniting were able to control large capital in addition. Other large capitalists were induced to take an interest in the business. More capital was obtained by credit. In this way all the needed capital has been raised from time to time. Earnings have also added to the capital to some extent. The dividends on Trust Certificates were for some years six per cent., and for the last eighteen months ten per cent. Surplus earnings to the amount of twenty per cent. have been added to the plant. A portion of this may be classed as an addition to the capital, but not a large portion, for the plant depreciates in value very rapidly. Thirty millions of dollars are, as I said, invested in the pipe line and tank system. In this system one million barrels of tankage, costing \$300,000, are now being rendered useless every month. The tanks are simply old junk. The oil fields are not permanent. They are rapidly being exhausted and when exhausted an investment of thirty millions of dollars will be represented by acres of old iron and thousands of miles of iron rust under ground. Is twelve, or even fifteen per cent. on an investment of this character too much?

You will ask, how about last year's earnings of \$25,000,000, for which the eloquent, if not exact, orator holds the figures. He only, of all mankind, holds the figures. The year's statements are not yet made up but we know they reach no such sum. The earnings for 1886, after making necessary deductions for depreciation in plant, did not exceed thirteen per cent. on the capital.

Before leaving this subject, contrast for a moment the nature of the complaints just considered. One is, in effect, that the Standard has sold its products so low, kept the margin between crude and refined oils so close, that competitors could not make money and were crushed out. The other is, that the Standard sold oils too high and made too much money. Both views cannot be true. The truth undoubtedly lies between the two. The

Standard's methods of business were such that it could sell oil products at figures too low for many competitors and still make fair profits for itself. If those methods of business are justifiable which secure the greatest good to the greatest number, this surely cannot be condemned.

3. The third and last reason which I shall consider for popular prejudice against the Standard, arises from the complaints of oil producers for many years, that it, for its own purposes, kept down the price of crude oil.

If you have followed my remarks you must be convinced that the storage and certificate system by which the producer sells his oil on Exchanges to thousands of buyers, instead of to a few, must have tended to better his prices. This system was adopted and maintained at the request of producers, and is a *sine qua non* of their business. All the efforts I have narrated to cheapen the cost of making the products, and to force them upon home and foreign markets must have also directly aided the producer. Without herculean efforts to market its products crude oil would have stagnated. With forty millions of barrels of surplus stock in tank how could good prices be expected?

But it is said that the Standard has speculated in these Certificates and sent the market up or down as it wished. This is emphatically denied. It has not speculated. It has purchased what it needed and used what it purchased. It has bought largely at times to save the market from absolute ruin, and for some years past, for like reasons, has carried a large part of the stock of oil at a loss to itself of millions.

To show that the price of crude oil has been generally governed by the law of supply and demand, nothing is needed but the table of figures given in evidence before this committee.

Up to 1866 the supply was limited and the demand was fully equal to it. No doubt, as indicated by the price of \$6, and \$7 per barrel, the demand was in excess of supply. In 1866 we find an excess of supply of half a million barrels and a consequent drop in price to \$3.76. The same excess of production continued in 1867, and over half a million barrels had to be stored in the oil regions. In consequence oil dropped to \$2.20. Then for two years the demand exceeded the supply; stocks on

hand were reduced and prices advanced to \$3.57 for 1868 and \$5.64 for 1869. The same causes kept prices near and above \$4 in 1870, 1871 and 1872. About this time the great Butler field was discovered. In 1873 we find an accumulation of over a million and a half of stocks, and prices reduced to \$1.73. In 1874 three and one-half million stocks and prices 1.18. One reason of extremely low prices at this time was the enormous gushers found and ignorance as to the limits of the field. In 1875 and 1876 stocks were reduced to two million barrels and prices advanced to \$2.51. In 1877 the great Bradford region became prominent and in 1878 it was pouring out rivers of oil. The production increased to fifteen million barrels per year. Up to this time the refiners had fairly kept pace with the producers. Markets had been found. Refined oil had been reduced to fifteen cents per gallon. The consumption exceeded thirteen millions of barrels.

But no exertions, no cheapening of prices could keep the demand equal to the enormous supply. Hence in 1878 we find over four million barrels in stock and prices down to \$1.16; in 1879 eight millions in stock and prices down to 88½ cents per barrel. It is possible this accumulation is not of itself sufficient to account for the great reduction in prices. It was this combined with the fact that a vast territory had been found, apparently unlimited in its capacity of supply, and from which oil was obtained at far less expense than in other territory. After that date the annual supply increased to 31 millions in 1882, the stocks on hand to 39 millions in 1884, and prices have since kept below the dollar line, except in the single year when buyers were encouraged by a falling off in production of about five million barrels, and prices averaged \$1.05. But no market could be sustained with this enormous load of surplus production of over thirty million barrels, and prices went down, until in 1887 an average of 66.6½ cents per barrel was reached. At present stocks are being rapidly drawn upon, buyers are encouraged and prices stand at or near 95 cents.

There is no escaping the conclusion. Prices have, in the main, been governed by supply and demand. Speculation has made the public buyers and held prices somewhat higher than

they would otherwise have been. At times speculation may have depressed prices. But the average tells the story. The laws of supply and demand have governed. How could it be otherwise when you consider the thousands of buyers? Last year was a dull year for the business, and yet twenty-seven hundred millions of barrels of oil were sold on 'Change.

For many years this was not understood or admitted by oil producers. The fact of over-production was denied and the whole cause of diminution in price charged to the Standard. In 1878 and 1879, when the Bradford region became so prominent and stock began to accumulate at the rate of six or eight million barrels per year, the Pipe Line Company served notice that it could not take care of this accumulation. Producers claimed, that being a Storage Company it must do it. Tanks could not be erected rapidly enough and oil ran upon the ground. This caused such intense excitement that riot was imminent. Secret associations were formed, masked men paraded at midnight, death and destruction were threatened. The wildest stories were believed, such as that the tanks were not filled, and that the story of over-production was a Standard lie, invented for the purpose of enabling it to purchase cheap oil. At length the Standard was forced to enter into an agreement to erect sufficient tankage to take care of all oil produced, and it thereafter did so, notwithstanding the production for a time equaled one hundred thousand barrels per day.

To-day the principal thing for which the oil producer blames the Standard is that it erected this tankage and saved this surplus which sits like an incubus upon his market. All now admit that over production caused all the trouble. A late paper signed by every important oil producer has this preamble:

"WHEREAS, There has accumulated in the past ten years an excessive stock of Crude Petroleum which is deteriorating in quality, and a portion of which each year becomes sediment, valueless for any purpose, and the carrying of which excessive stock requires the expenditure of vast sums annually; And Whereas, in consequence of the existence of said stock the price of Crude Petroleum has for the past year been largely below the cost at which the same was produced, &c."

Thus time at length brings truth to light. The oil producer knows and admits that his charges against the Standard in 1878 and many subsequent years were baseless and unjust. But the influence of those unjust charges and the accompanying public excitement is prejudicing your minds to-day as the waves caused by a storm at sea will fret distant shores long after the storm is over.

It is useless to dwell further upon the current allegations against the Standard. The majority of them are as wild and baseless as Arabian Nights' Tales.

I have dwelt at such length upon the history of the Standard because it is always referred to as embodying all the evils of combinations and trusts. And yet the facts show that it, or some similar combination of persons and capital, was and is essential to the building up and maintenance of the American oil trade; that its destruction would be the destruction of that trade; that it has furnished the producer a cash market and the best possible price for his oil, and that it is benefiting the public by actual reduction in cost of manufacture and prices to the extent of more than its aggregated capital each year. Let the State or National Legislature provide a better mode for carrying on this business if they can, but let them not despoil the structure until a better is provided to take its place.

University of California
SOUTHERN REGIONAL LIBRARY FACILITY
305 De Neve Drive - Parking Lot 17 • Box 951388
LOS ANGELES, CALIFORNIA 90095-1388

Return this material to the library from which it was borrowed.

41585

THE SOUTHERN REGIONAL LIBRARY
AA 000 695 341 8

Univ
S